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Thailand

Sugar

Cabinet Approves Sugar Price Increases

2008

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Report Highlights:

Despite current inflation pressure from high food prices, the Government raised the controlled sugar prices by 5 baht/kg. (seven cents/lb.), effective on May 1, 2008, in order to reduce the debt burden of the price support program. Sugarcane production has been listed as a priority by the Thai Government, which plans to increase cane production for ethanol use. However, targets to increase cane production may be missed as domestic ethanol demand has been lower than expected.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Bangkok [TH1]
[TH]

Government increases sugarcane support prices and sugar consumer price

On April 29, the Thai Cabinet approved an increase in MY 2007/08 sugar support prices to 807 baht/ton (\$26/MT), up from 600 baht/ton (\$19/MT) set on January 8, 2008 and slightly higher than the previous year's level of 800 baht/ton (\$23/MT). In addition, government controlled sugar prices were allowed to increase by 5 baht/kg. to 19 baht/kg. (\$27 cents/lb) for white sugar, and 20 baht/kg (\$29 cents/lb) for refined sugar, ex-factory wholesale. The retail prices (including 7% Value Added Tax) were approved to increase to 21.85 baht/kg (\$32 cent/lb) for white sugar, and 22.85 baht/kg (\$33 cent/lb) for refined sugar, effective May 1, 2008.

The Government also affirmed its support for the national agenda on sugarcane. The three-year development plan (MY2008/09 – 2010/2011) seeks to increase sugarcane production to 95 million tons by raising the average yield to 15 tons/rai (94 tons/hectare), as compared to current production of 73.2 million tons with an average yield of 11.8 tons/rai (74 tons/hectare). The increase in sugarcane production will go primarily into ethanol production, which is targeted to reach 3.4 billion liters/year in MY2010/2011. Meanwhile, sugar production will decline to 5.6 million tons, as compared to anticipated current production of 7.6 million tons.

Table: 3-Year Sugarcane Plan (MY 2008/09 - 2010/2011)

	MY 2007/08	Target		
		MY 2008/09	MY 2009/10	MY 2010/2011
Sugarcane (Million Ton)	73.2	80	87	95
Yield (Ton/Rai)	11.81	13	14	15
Planted Area (Million Rai)	6.2	6.2	6.2	6.2
Cane for Domestic Sugar Consumption	18	20	20	20
Cane for Sugar Exports	55.2	42	37	32
Cane for Ethanol Production	0	18	30	43
Sugar				
Sugar Yield (kg.)/Ton of Cane	106	107	107	108
Sugar Production (Million Ton)	7.60	6.60	6.10	5.62
Sugarcane-based Ethanol Production (Million Liter/Year)	-	1,400	2,400	3,440

Source: Ministry of Industry

Cane growers benefit at the expense of consumers

The increase in support prices will cover higher production costs of cane growers. However, the state-run Cane and Sugar Fund is expected incur an additional debt burden of 12.4 billion baht (\$393 million) to the Bank for Agriculture and Agricultural Cooperative (BAAC) from this increase, with total debt reaching 24.8 billion baht (\$787 million) ([TH8057](#)). As a result, the government has to allow an increase in controlled sugar prices by 32 percent in order to generate revenues needed to offset the increasing debt, as the Fund's revenue comes mainly from the Value-Added Tax (VAT) collected on domestic refined sugar sales. The Thai Commerce Ministry estimates the impact to food industries is at around 1.0 – 3.8 percent increase in production costs. Meanwhile, the inflation rate surged to a 23-month high of 6.2 percent in April, following an increase in food and beverage prices.

The feasibility of the three-year development plan revolves around Thailand's ethanol policy. Ethanol plants are currently running under capacity due to limited export opportunities and disappointing domestic gasohol consumption. Current excess supplies of ethanol will prevent near-term expansion of sugarcane-based ethanol production. Presently, there are only nine

ethanol plants operating with production capacity of 1.25 million liters/day. However, 45 plants have been registered (with production capacity of 10.9 million liters/day), with the remainder yet to come online. These nine plants produce around 60-70 percent of total ethanol production and are primarily molasses-based. In MY 2007, only one sugar miller in the northeast utilized 57,345 tons of sugarcane for ethanol production, up from 24,000 tons from the previous year.

End of Report.